

Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 2385 – Ethanol Promotion (LSB 5772 SV)

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Fiscal Note Version – New

Description

Senate File 2385 provides for the following statutory changes relating to renewable fuels:

1. Modifies the definitions of retail dealer and wholesale dealer.
2. Adds the following definitions – currently codified in other Chapters – to Chapter 214A (Motor Vehicle Fuel), Code of Iowa:
 - Ethanol-blended gasoline – Ethanol-blended gasoline other than E-85-blended gasoline. At least 10.0% of the gasoline by volume must be ethanol.
 - E-85-blended gasoline:
 - From the first day of April until the last day of October, at least 85.0% of the gasoline by volume must be ethanol.
 - From the first day of November until the last day of March, at least 75.0% of the gasoline by volume must be ethanol.
3. Establishes high-emission gasoline as a type of motor fuel, and defines such gasoline as a motor fuel other than ethanol-blended gasoline that is premium-grade unleaded.
4. Prohibits the following:
 - The sale of high-emission gasoline except for limited purposes.
 - A retail dealer from using more than one metered pump to dispense high-emission gasoline. The metered pump must be labeled to specify its restricted use.
 - A person from falsely advertising the quality of motor fuel or that a motor fuel is a renewable fuel.
5. Institutes the following tax changes:
 - From January 1, 2007, through January 1, 2012, provides a 10-cent per gallon income tax credit for retailers that sell E-85-blended gasoline.
 - Effective January 1, 2007, repeals the 2.5-cents per gallon income tax credit on ethanol-blended gasoline for retailers whose total gasoline sales include more than 60.0% in ethanol-blended gasoline sales.
6. The Bill takes effect on January 1, 2007. The 10-cents per gallon income tax credit on E-85-blended gasoline applies to tax years beginning on or after January 1, 2007.

Background

State fuel-tax rates have been affected in previous years due to the following legislation:

1. House File 716 (Ethanol Sales Promotion Act), enacted during the 2001 Legislative Session, established a tax schedule that provides for changes in fuel-tax rates based on the gallons of ethanol-blended gasoline sold each calendar year. The Act allows the tax

rates to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year, as determined by the Department of Revenue. The tax schedule sunsets on June 30, 2007.

2. House File 716 also established an income tax credit of 2.5 cents per gallon on ethanol-blended gasoline for retailers whose total gasoline sales include more than 60.0% in ethanol-blended gasoline sales.
3. House File 868 (FY 2006 Iowa Values Fund Act) provides a 17.0-cents per gallon tax rate on E-85-blended gasoline beginning January 1, 2006. The 17.0-cents rate for future years, however, is contingent on the amount collected in the previous year. The Department of Revenue determines the actual tax paid on E-85-blended gasoline each calendar year. If the amount of tax paid in the previous calendar year is equal to or greater than \$25,000, the tax rate on E-85-blended gasoline will revert to the amount specified in Section 452A.3(1), Code of Iowa, the following fiscal year.

Assumptions

1. In determining the percentage of ethanol-blended gasoline sold each calendar year, the Department of Revenue includes aviation fuel in the total number of gallons of motor fuel sold. The tax on aviation fuel will not be affected by the proposed legislation.
2. In FY 2005, the total amount of motor fuel sold was 1.641 billion gallons, of which 1.143 billion (69.7%) was ethanol-blended gasoline, 494.6 million (30.1%) was gasoline, and 2.6 million (0.2%) was aviation fuel. In the first half of FY 2006, the total amount of motor fuel sold was 836.8 million gallons, of which 632.7 million (75.6%) was ethanol-blended gasoline, 202.5 million (24.2%) was gasoline, and 1.6 million (0.2%) was aviation fuel.
3. In FY 2006 through FY 2012, gasoline and ethanol-blended gasoline will be taxed, per gallon, as follows:
 - FY 2006 (second half): Gasoline 20.7 cents; E-10 19.0 cents; and E-85 17.0 cents.
 - FY 2007: Gasoline 21.0 cents; E-10 19.0 cents; and E-85 17.0 cents.
 - FY 2008 and beyond: Gasoline 20.0 cents; E-10 20.0 cents; and E-85 20.0 cents.
4. Compared to gasoline, this analysis assumes E-10 receives 2.35% less mileage per gallon, and E-85 receives 20.0% less mileage per gallon. As a result, more of each fuel type will be sold.
5. This analysis assumes an annual increase of 1.0% for the total number of taxable gallons sold, in addition to an annual increase in gallons to account for the decrease in the miles per gallon.
6. The percentages of gasoline, E-10, and E-85 sold in FY 2007 through FY 2012 will be as follows. The percentage of aviation fuel sold will be 0.2% each year:
 - FY 2007: Gasoline 10.3%; E-10 89.0%; E-85 0.5%
 - FY 2008: Gasoline 3.8%; E-10 95.0%; E-85 1.0%
 - FY 2009: Gasoline 1.8%; E-10 96.0%; E-85 2.0%
 - FY 2010: Gasoline 1.8%; E-10 95.0%; E-85 3.0%
 - FY 2011: Gasoline 1.8%; E-10 94.0%; E-85 4.0%
 - FY 2012: Gasoline 1.8%; E-10 93.0%; E-85 5.0%

7. The tax credits claimed in FY 2007 represent credits earned from January 1, 2006, through December 31, 2006. As a result, there will be no savings in FY 2007 due to ending the credit on December 31, 2006.
8. Much of federal highway funding distributed to states is based on the amount of federal gas tax remitted to the Federal Highway Trust Fund. Currently, ethanol-blended gasoline and gasoline are taxed at the same federal tax rate, thereby not impacting the Federal Highway Trust Fund. Iowa's federal fund allotment may increase as the sale of ethanol-blended fuel increases; however, the amount cannot be determined.

Fiscal Impact

Senate File 2385 will have the following estimated fiscal impacts:

Road Use Tax Fund

A decrease of \$1.4 million in motor fuel tax revenue to the Road Use Tax Fund in the second half of FY 2007 due to a decrease in gasoline tax resulting from decreased gasoline gallons sold. Road Use Tax Fund revenues will increase in FY 2008 through FY 2012 in the following amounts due to the increase in gasoline tax resulting from increased gasoline gallons sold:

- FY 2008: \$1.6 million
- FY 2009: \$1.9 million
- FY 2010: \$2.0 million
- FY 2011: \$2.3 million
- FY 2012: \$2.5 million

General Fund

- *10.0-cents per gallon income tax credit on E-85-blended gasoline:* An estimated decrease in revenues to the General Fund as follows:
 - FY 2008: \$840,000
 - FY 2009: \$1.7 million
 - FY 2010: \$3.4 million
 - FY 2011: \$5.2 million
 - FY 2012: \$7.0 million
- *Repeal of 2.5-cents income tax credit on ethanol-blended gasoline:* An estimated increase in revenues to the General Fund in the following amounts:
 - FY 2007 (second half): No fiscal impact. The tax credits claimed in FY 2007 represent credits earned from January 1, 2006, through December 31, 2006. As a result, there will be no savings in FY 2007 due to ending the credit on December 31, 2006.
 - FY 2008: \$9.5 million

The estimated net fiscal impact to the General Fund in FY 2008 is an increase of \$8.7 million.

Federal Funds

An estimated increase in federal highway funds due to an increase in the number of gallons of E-10 and E-85 sold. The increase, however, is unknown.

Correctional Impact

The Bill prohibits retail dealers of gasoline from selling gasoline other than ethanol-blended gasoline, but provides a number of exceptions. Any person guilty of violating these provisions of the Code of Iowa, is guilty of a simple misdemeanor. The correctional impact cannot be determined as the number of persons who will violate these provisions is unknown.

Sources

Department of Transportation
Department of Revenue (Monthly Fuel Tax Reports)

/s/ Holly M. Lyons

March 14, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
